

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**  
**Project Staff Report**  
**Tax-Exempt Bond Project**  
**May 17, 2017**

North San Pedro Apartments, located at 201 Bassett Street in San Jose, requested and is being recommended for a reservation of \$1,594,897 in annual federal tax credits to finance the new construction of 134 units of housing serving tenants with rents affordable to households earning 30-50% of area median income (AMI). The project will be developed by First Community Housing and will be located in Senate District 15 and Assembly District 27.

The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers and HUD VASH Project-Based Vouchers. In addition, the project financing includes state funding from the VHHP and AHSC programs of HCD.

**Project Number** CA-17-746

**Project Name** North San Pedro Apartments  
**Site Address:** 201 Bassett Street  
San Jose, 95110 County: Santa Clara  
**Census Tract:** 5002

| <b>Tax Credit Amounts</b> | <b>Federal/Annual</b> | <b>State/Total</b> |
|---------------------------|-----------------------|--------------------|
| Requested:                | \$1,594,897           | \$0                |
| Recommended:              | \$1,594,897           | \$0                |

**Applicant Information**

**Applicant:** North San Pedro Apartments, LP  
**Contact:** Regina Celestin Williams  
**Address:** 75 E. Santa Clara Street, Suite 1300  
San Jose, CA 95113  
**Phone:** 408-291-8650  
**Email:** ReginaCW@firsthousing.org

**General Partner(s) or Principal Owner(s):** North San Pedro Apartments LLC  
**General Partner Type:** Nonprofit  
**Parent Company(ies):** First Community Housing  
**Developer:** First Community Housing  
**Investor/Consultant:** Community Economics, Inc.  
**Management Agent:** The John Stewart Company

**Project Information**

Construction Type: New Construction  
 Total # Residential Buildings: 3  
 Total # of Units: 135  
 No. & % of Tax Credit Units: 134 100.00%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: Tax-Exempt/HUD Section 8 Project-based Vouchers (60 units - 44%)  
 HUD VASH Project-based Vouchers (49 units - 36%)  
 HCD MHP Funding: No  
 55-Year Use/Affordability: Yes  
 Number of Units @ or below 35% of area median income: 58  
 Number of Units @ or below 50% of area median income: 76

**Bond Information**

Issuer: California Housing Finance Agency  
 Expected Date of Issuance: August 11, 2017  
 Credit Enhancement: N/A

**Information**

Housing Type: Non-Targeted  
 Geographic Area: South and West Bay Region  
 TCAC Project Analyst: Diane SooHoo

**Unit Mix**

118 SRO/Studio Units  
 16 1-Bedroom Units  
 1 2-Bedroom Units  


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 135 Total Units

| <b>Unit Type &amp; Number</b> | <b>2016 Rents Targeted % of Area Median Income</b> | <b>2016 Rents Actual % of Area Median Income</b> | <b>Proposed Rent (including utilities)</b> |
|-------------------------------|--|--|--|
| 52 SRO/Studio                 | 30%  | 30%  | \$586                                      |
| 46 SRO/Studio                 | 50%  | 50%  | \$977                                      |
| 20 SRO/Studio                 | 50%  | 50%  | \$977                                      |
| 6 1 Bedroom                   | 30%  | 30%  | \$628                                      |
| 5 1 Bedroom                   | 50%  | 50%  | \$1,046                                    |
| 5 1 Bedroom                   | 50%  | 50%  | \$1,046                                    |
| 1 2 Bedrooms                  | Manager's Unit                                     | Manager's Unit                                   | \$0  |

Projected Lifetime Rent Benefit: \$107,661,840

**Project Cost Summary at Application**

|                                  |                     |
|----------------------------------|---------------------|
| Land and Acquisition             | \$125,000           |
| Construction Costs               | \$37,458,390        |
| Rehabilitation Costs             | \$0                 |
| Construction Contingency         | \$1,872,920         |
| Relocation                       | \$0                 |
| Architectural/Engineering        | \$1,850,000         |
| Const. Interest, Perm. Financing | \$3,610,118         |
| Legal Fees, Appraisals           | \$165,000           |
| Reserves                         | \$1,562,365         |
| Other Costs                      | \$3,547,302         |
| Developer Fee                    | \$2,800,000         |
| Commercial Costs                 | \$0                 |
| <b>Total</b>                     | <b>\$52,991,095</b> |

**Project Financing**

|                                     |              |
|-------------------------------------|--------------|
| Estimated Total Project Cost:       | \$52,991,095 |
| Estimated Residential Project Cost: | \$52,991,095 |
| Estimated Commercial Project Cost:  | \$0          |

**Residential**

|                                    |           |
|------------------------------------|-----------|
| Construction Cost Per Square Foot: | \$457     |
| Per Unit Cost:                     | \$392,527 |
| True Cash Per Unit Cost*:          | \$383,097 |

**Construction Financing**

| Source                      | Amount       |
|-----------------------------|--------------|
| Rabobank Construction Loan  | \$42,135,396 |
| City of San Jose Fee Waiver | \$1,273,000  |
| Successor Agency Loan**     | \$2,500,000  |
| Affordable Housing Program  | \$2,000,000  |
| Tax Credit Equity           | \$1,515,334  |

**Permanent Financing**

| Source                      | Amount              |
|-----------------------------|---------------------|
| CalHFA Tranche B Loan       | \$13,126,000        |
| HCD- VHHP Loan              | \$8,540,908         |
| HCD- AHSC Loan              | \$8,927,557         |
| City of San Jose Fee Waiver | \$1,273,000         |
| Successor Agency Loan**     | \$2,500,000         |
| Affordable Housing Program  | \$2,000,000         |
| General Partner Equity      | \$1,400,000         |
| Tax Credit Equity           | \$15,223,630        |
| <b>TOTAL</b>                | <b>\$52,991,095</b> |

\*Less Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

\*\* Pass-through loan made through First Community Housing

**Determination of Credit Amount(s)**

|  |                           |
|--|---------------------------|
| Requested Eligible Basis:                                  | \$49,073,754              |
| 130% High Cost Adjustment:                                 | No                        |
| Applicable Fraction:                                       | 100.00%                   |
| Qualified Basis:   | \$49,073,754              |
| Applicable Rate:   | 3.25%                     |
| Maximum Annual Federal Credit:                             | \$1,594,897               |
| Approved Developer Fee (in Project Cost & Eligible Basis): | \$2,800,000               |
| Investor/Consultant:                                       | Community Economics, Inc. |
| Federal Tax Credit Factor:                                 | \$0.95452                 |

Per Regulation Section 10322(h)(9)(A), The “as if vacant” land value and the existing improvement value established at application, as well as the eligible basis amount derived from those values, will be used during all subsequent reviews including the placed in service review, for the purpose of determining the final award

Per Regulation Section 10327(c)(2)(C), Once established at the initial funded application, the developer fee cannot be increased, but may be decreased, in the event of a modification in basis.

**Eligible Basis and Basis Limit**

|                                       |              |
|---------------------------------------|--------------|
| Requested Unadjusted Eligible Basis:  | \$49,073,754 |
| Actual Eligible Basis:                | \$49,073,754 |
| Unadjusted Threshold Basis Limit:     | \$33,933,948 |
| Total Adjusted Threshold Basis Limit: | \$88,906,944 |

**Adjustments to Basis Limit**

Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 56%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 86%

**Cost Analysis and Line Item Review**

Staff analysis of project costs to determine reasonableness found all fees to be within TCAC’s underwriting guidelines and TCAC limitations. Annual operating expenses exceed the minimum operating expenses established in the Regulations, and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.25% of the qualified basis. Applicants are cautioned to consider the expected federal rate when negotiating with investors. TCAC's financial evaluation at project completion

**Special Issues/Other Significant Information:** None.

**Local Reviewing Agency**

The Local Reviewing Agency, City of San Jose, has completed a site review of this project and strongly supports this project.

**Recommendation**

Staff recommends that the Committee make a preliminary reservation of tax credits in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

|                                   |                                |
|-----------------------------------|--------------------------------|
| <b>Federal Tax Credits/Annual</b> | <b>State Tax Credits/Total</b> |
| <b>\$1,594,897</b>                | <b>\$0</b>                     |

**Standard Conditions**

If applicant is receiving tax-exempt bond financing from other than CalHFA, the applicant shall apply for a bond allocation from the California Debt Limit Allocation Committee's next scheduled meeting, if not previously granted an allocation; shall have received an allocation from CDLAC; and, shall issue bonds within time limits specified by CDLAC.

The applicant anticipates financing more than 50% of the project aggregate basis with tax-exempt bond proceeds as calculated by the project tax professional. Therefore, the federal credit reserved for this project will not count against the annual ceiling.

The IRS has advised TCAC that the amount of tax-exempt bonds issued, equivalent to at least 50% of aggregate basis, must remain in place through the first year of the credit period or until eligible basis is finally determined.

TCAC makes the preliminary reservation only for the project specified above in the form presented, and involving the parties referred to in the application. No changes in the development team or the project as presented will be permitted without the express approval of TCAC.

The applicant must pay TCAC a reservation fee calculated in accordance with regulation. Additionally, TCAC requires the project owner to pay a monitoring fee before issuance of tax forms.

As project costs are preliminary estimates only, staff recommends that a reservation be made in the amount of federal credit and state credit shown above on condition that the final project costs be supported by itemized lender approved costs and certified costs after the buildings are placed in service.

All unexpended funds in reserve accounts established for the project must remain with the project to be used for the benefit of the property and/or its residents, except for the portion of any accounts funded with deferred developer fees.

All fees charged to the project must be within TCAC limitations. Fees in excess of these limitations will not be considered when determining the amount of credit when the project is placed-in-service.

The applicant/owner shall be subject to underwriting criteria set forth in Section 10327 of the regulations through the final feasibility analysis performed by TCAC at placed-in-service.

Credit awards are contingent upon applicant's acceptance of any revised total project cost, qualified basis and tax credit amount determined by TCAC in its final feasibility analysis.

### **Additional Conditions**

The applicant/owner is required to complete the following sustainable building methods in accordance with the bond allocation from CDLAC and provide the applicable certifications and documentation when the TCAC placed-in-service application is submitted:

- The project commits to becoming certified under any one of the following programs: Leadership in Energy & Environmental Design (LEED); Green Communities; or the GreenPoint Rated Multifamily Guidelines
- The project commits to having at least 1 building subject to a policy developed by the owner that prohibits smoking in contiguous designated units.
- The project commits to a parking ratio equivalent of 1 parking stall or less per SRO and 1-bedroom restricted rental units, and 1.5 parking stall or less per 2-bedroom and larger restricted rental units.